

NEWSLINE

Savings Plus Program

3rd Quarter 2008

What is STIF?

Over the past two months, SPP's call center has received a high volume of calls related to the Short-Term Investment Fund (STIF) that reveal some common misperceptions about this fund. The following information will help clarify its role in our portfolio and help you evaluate whether the STIF is an appropriate choice for you.

STIF is a "stable value" fund

The Short-Term Investment Fund is a type of fund that uses a conservative, "stable value" investment strategy. Stable value funds seek to preserve principal, pay a competitive interest rate, and provide daily liquidity (you can move your investment in the STIF to bond or stock funds to meet your asset allocation needs). Stable value funds' assets consist of high-quality bonds and interest-bearing contracts, purchased directly from banks, insurance companies, or mutual funds.

Nearly half of all public and private defined contribution plans offer stable value funds in their portfolio¹. Nationwide, today's stable value investments total about \$416 billion².

Dwight Asset Management Company LLC (Dwight) manages almost \$50 billion in stable value funds nationwide, including SPP's Short-Term Investment Fund. Dwight is one of the largest managers of stable value funds in the U.S., with a track record over the past 25 years.

STIF Historical Rates of Return for Period Ending September 30, 2008 (Net Performance)

Fund/Index	One Year	Three Year	Five Year	Ten Year
STIF*	4.77%	4.77%	4.69%	5.34%
Lehman 1-3 Year Gov. Index	5.90%	5.14%	3.52%	4.57%
Merrill 90-day T-bill Index	2.90%	4.20%	3.26%	3.55%

* Performance net of fund expense (0.22%)

The results shown represent past performance and do not represent expected future performance or experience. Past performance does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's units, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the data quoted. Performance data current to the most recent month-end may be obtained by visiting: sppforu.com.

Please consider the fund's investment objectives, risks, and charges and expenses carefully before investing. The prospectus/fact sheets contain this and other important information about the investment company. Fact sheets/prospectuses are available on the Web site or by calling (866) 566-4777. Read the fact sheet/prospectus carefully before investing.

Market indices have been provided for comparison purposes only; they are unmanaged and no fees or expenses have been reflected here. Individuals cannot invest directly in an index. Although gathered from reliable sources, data accuracy and completeness cannot be guaranteed.

Is it a safe investment?

SPP's Short-Term Investment Fund offers a safe investment by combining the best features of bonds and money market funds: historically higher bond-like returns with the liquidity and safety of money market funds. The STIF uses "insurance wrap contracts" to remove the potential effects of a loss or fluctuation in the bonds' principal value. Insurance wrap contracts are underwritten by insurance companies and banks with a long record of financial stability. For this reason, the Short-Term Investment Fund does not carry federal insurance (FDIC).

Some of you have asked "Has this fund ever lost its principal value?" To date, not a single penny of participants' principal assets in the STIF — or the stable value fund that preceded it for 15 years — has been lost.

Additionally, over the long term, the Dwight-managed STIF has outperformed both the Lehman 1-3 Year Government Bond Index and the Merrill 90-day U.S. Treasury Bill Index. (See the chart below.)


So, if you're at a point where your asset allocation plan calls for a portfolio focused on **preserving** assets (as opposed to growing those assets), consider adding the STIF to your asset mix.

¹ Source: EBRI/ICI Annual Participant-Directed Defined Contribution Plan Data Collection (calendar year 2007)

² \$416 billion as of December 31, 2007 — Source: Stable Value Investment Association's 12th Annual SVIA Policy Survey.

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It's important you don't exceed the 2008 annual contribution limit of \$15,500 (or \$20,500 per plan if you're 50 or older), because it can have unfavorable tax implications.

How to Avoid Over-Deferrals

The 2008 annual contribution limit is \$15,500 per plan

(or \$20,500 per plan if you're 50 or older). It's important you don't exceed that limit (called over deferring), because it can have unfavorable tax implications.

If you over-defer in 2008, Savings Plus will send you a refund in 2009 for the amount of the over-deferral plus any earnings on it. We'll also send you two IRS forms (1099-R) by January 31, 2010. One 1099-R will show the refunded contribution amount, coded as taxable income for 2008. This may require you to file an amended tax return for 2008. The other 1099-R will show the earnings on the refunded contribution amount, which will be coded as taxable income for 2009.

To avoid over-deferring:

- Review the annual contribution limits to determine your limit. (For next year, be sure to visit our website in early November for the 2009 contribution limits.)
- Calculate the average monthly deferral amount that allows you to reach the annual limit (e.g., \$15,500 divided by 12 months = \$1,291.66 per month).
- Determine whether you're on pace to over-defer in the current year and, if so, reduce your current monthly contribution amount for the rest of the year.
- If you reduce your monthly contribution to avoid over-deferring in the current year, remember to increase it again for the new tax year if you want to "max out" for next year (as described in the second bullet).
- Discuss your deferral limit with a qualified tax advisor. (Savings Plus does not provide tax advice.)

If you only have one plan (401(k) or 457) and already contribute the maximum amount to it, and you want to invest more, consider opening an account in the other plan. You're allowed to contribute up to the maximum amount for each plan.



Lump Sum Transfers: New Process

You're entitled to a lump-sum payment for unused leave

when you retire or separate from State service. Normally, this payment has a federal tax withholding rate of approximately 42% and is taxable as ordinary income.

You can ease this tax burden by transferring a designated amount of your lump-sum payment to your Savings Plus 401(k) and/or 457 Plan accounts. You'll avoid taxes on this money until you withdraw the funds, usually over several years during retirement when your tax rate is typically lower.

If you separate or retire on or after November 1, you also have the option to defer a portion of this transfer to Savings Plus to the next tax year.

To make a lump sum transfer to Savings Plus, submit a written request to your employer at least five business days prior to your final day of employment. Get the Request To Transfer Lump-Sum Separation Pay booklet from our website, SPPforu.com, (under "forms and publications"), or have it mailed to you by calling customer service Monday–Friday from 8:30 a.m. to 4:00 p.m. (PT) at 1-866-566-4777 (press *0 to speak to a customer service representative).

2009 Contribution Limits

The IRS hasn't yet set the 2009 contribution limits for

401(k) and 457 plans. However, they will be at least as high as the 2008 cap: \$15,500 per plan (or \$20,500 per plan if you're 50 or older). Check our website in early November for an update. We'll post information on the 2009 contribution limits just as soon as IRS announces it.

When leaving State service, you're lump-sum payment for unused leave can have a federal tax withholding rate of approximately 42%. Ease this tax burden by transferring a designated amount to your Savings Plus accounts.

Consulting Contracts Awarded

Savings Plus awarded contracts to the three consulting firms listed below to provide us with deferred compensation “best practice” recommendations and serve as co-fiduciaries for the plans. The firms, selected based on a competitive Request for Proposal process, will begin providing services in January 2009. All three bring national and international expertise in investment consulting.

R.V. Kuhns & Associates, Inc. will advise SPP on plan design (recommending the types of investments SPP should offer participants) and help us identify and select investment managers, record keepers, custodians, and other plan service providers.

Mercer Investment Consulting, Inc., SPP’s sole consultant for over 15 years, will continue to monitor performance and compliance by our investment providers and other third-party vendors our program uses.

Callan Associates, Inc. will provide consulting for special projects on an as-needed basis.



Investment Fund Update

FUND INVESTIGATIONS

No items to report.

FUND MANAGER CHANGES

No manager changes to report.

WATCHLIST

There are no funds eligible for the Watchlist this quarter.



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